

VZCZCXRO9874
PP RUEHBC RUEHDA RUEHDE RUEHKUK
DE RUEHIHL #0023/01 0951132
ZNR UUUUU ZZH
P 051132Z APR 09
FM REO HILLAH
TO RUEHC/SECSTATE WASHDC PRIORITY 1159
INFO RUEHRC/USDA FAS WASHDC PRIORITY
RUCNRAQ/IRAQ COLLECTIVE
RUEHIHL/REO HILLAH 1232

UNCLAS SECTION 01 OF 05 HILLAH 000023

SENSITIVE
SIPDIS

USDA/FAS/OCBD/CURTIS, BENSON, WOLF
USDA/FAS/OCRA/ALLEN

E.O. 12958: N/A
TAGS: [EAGR](#) [ECON](#) [EINV](#) [IZ](#)
SUBJECT: TAKING STEPS TO UPROOT THE STATIST LEGACY IN BABIL'S
AGRICULTURE

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11. (SBU) SUMMARY: Although agriculture is almost certainly the largest employer in Babil Province, a long history of central planning has undermined its competitiveness and long-term sustainability. As the owner of around 70 percent agricultural land in the province, the government micromanages what farmers produce, guarantees the purchase of key crops, and, to a lesser extent, subsidizes agricultural inputs. These statist policies and other factors, from inadequate credit to the distortionary Public Distribution System (PDS), have restricted private sector development in agriculture. Having come to rely on government largesse, it is little surprise that Babil farmers look to intervention and protection rather than open markets for their livelihoods. Taking heed of these deep-rooted structural impediments, Babil PRT has promoted the establishment of an Iraqi-led agricultural advisory committee comprised of public and private sector stakeholders invested in the long-term agricultural viability of the province, once the breadbasket of Iraq. The council has begun working to prioritize projects and troubleshoot problems at the local level. Consistent with a recent USAID assessment of Iraq's overall agricultural trajectory, production of vegetables and fish -- areas in which government intervention has been limited -- offer the greatest hope for future success in Babil. END SUMMARY.

FROM BREADBASKET TO BASKET CASE

12. (SBU) Agriculture is almost certainly the largest employer in Babil Province, although there are no consistent official hard data. The Ministry of Agriculture's Director for Babil Province, Hussein Hassoni Ahmed, told PRT officers March 18 that farming accounted for "over fifty percent" of the province's employment; he said his database contained the names of 38,000 farmer heads of household. A December 2007 food security survey by the World Food Program found that roughly 30 percent of Babil households owned farm animals, a farm plot, and had the head of household engaged in farming as a primary occupation. In comparison, these percentages were 23%, 18%, and 12%, respectively, for Iraq as a whole. Estimates of agriculture's role in Babil's GDP have ranged from as low as six to as high as 90 percent, although PRT agriculture advisors assess that estimates on both ends of this spectrum are implausible, in part since between one half and one third of the province is urbanized. From all of this data noise, the PRT concludes that approximately one third of the population is engaged in agricultural production, accounting for a much smaller

proportion of provincial GDP, probably 15 to 20 percent.

13. (SBU) According to the al-Rafidain Center, a government research center affiliated with the Provincial Council, the government owns approximately 170,000 acres of agricultural land in Babil Province. USDA estimates this is around 70 percent of the total. Of the government-owned lands, the average sized farm is 4.7 acres. Babil is Iraq's top producer of dates and fish; its other main crops are wheat, barley, maize, and vegetables. In addition to field crops, 11,000 farmers in Babil Province manage some 33,000 privately held acres of orchards growing oranges, lemons, apples, and apricots, according to al-Rafidain.

14. (SBU) Babil consumers rely on imports and their government ration baskets for much of their consumption rather than locally produced crops. The PDS ration basket supplies much of the public's basic foodstuffs including powdered milk, rice, wheat, and oil. When a PRT locally employed staff member recently visited one Babil vegetable wholesaler looking for locally grown products, the vendor reported that nothing he sold was Iraqi; the PRT has observed a similar preponderance of imported foodstuffs in other markets. Locally grown items are consistently more expensive than their imported competitors. Babil farmers, for their part, complain about the flood of foreign vegetables from Iran, Syria, and Jordan as undercutting the competitiveness of their own production.

WIDESPREAD GOI MARKET INTERVENTION

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15. (SBU) The GOI maintains a tight grip on the supply of agricultural inputs, relying on an often corrupt and inefficient supply chain and limiting the freedom of Iraqi farmers to choose what they grow on state-owned lands. Agriculture Director Ahmed said nearly one third of agricultural inputs, ranging from fertilizer to seeds to tractors, are provided by state-run entities at subsidized prices. For Babil farmers to receive inputs for use on GOI-owned land, they must plant crops as directed by the Ministry of Agriculture. The state-run fertilizer distributor, whose mandate is to sell inputs at around one third of their cost to local producers, sets prices artificially high to dissuade farmers from buying government products. Many farmers then opt for cheaper and lower-quality Iranian fertilizer imports, as employees at the state-run distributor sell their supplies on local markets and pocket the profits, according to PRT discussions with local farmers. An American businessman interested in investing in feedlots, slaughterhouses, and enhanced genetic inputs in Babil told the PRT in early March that payment of bribes was "expected" to wrest control of any part of the input supply chain from what he perceived was the government's virtual monopoly.

16. (SBU) Just as it subsidizes inputs, the GOI guarantees the purchase of "strategic crops" (wheat, barley, dates, maize, and rice). Agriculture Director Ahmed said that the government was committed to buying up these types of agricultural output in the province at subsidized prices. Apologizing for only being able to provide a third of the necessary inputs to meet demand, he explained that the GOI seeks to "make it up to the farmers" by paying high prices for Babil's agricultural output. Whereas the government paid 450,000 ID per ton for wheat last year, for example, this year it would pay 855,000 ID per ton (about double

world market prices). The Director said the only farmers in Babil who did not sell their output directly to the government were a handful of very poor farmers living hand-to-mouth who needed "fast cash" and could therefore not wait for the administrative processing delays in selling to the government. Ahmed said that even by buying up all of the output, the relatively low yield of Iraqi agriculture meant Iraq was still reliant on imports to meet the demand of the Ministry of Trade's Public Distribution System (PDS) of food rations.

17. (SBU) Government price supports have inculcated in the Babil public the idea of government interventionism as a fix to the region's agricultural woes. The Babil business community and public have frequently voiced to us their belief that high tariffs should be added to the mix of government intervention; they are apparently unaware that tariffs carry costs. In a February 26 business environment conference sponsored by Babil PRT (reported septel), two independent working groups of local business and government leaders identified tariff protection as one of their top solutions to enhancing Iraqi production, including agriculture. There is also a near-universal perception that all neighboring countries are "dumping" their produce into Iraqi markets. Farmers and agribusiness owners tell us frequently that many of their problems would be solved if the GOI just sealed the borders from competitive imports.

18. (SBU) Macroeconomic conditions driven by national-level policies also undercut the potential for greater agricultural production in Babil. Lack of capital and the poor banking system prevent farmers from buying inputs or arranging letters of credit for exports, thus perpetuating their reliance on the state to provide inputs and purchase output. While the state-run Agriculture Bank claims to offer zero percent loans to farmers, it has consistently refused to share any of its lending statistics with us; this treatment of lending practices as a state secret has made us question the extent to which it is lending to farmers at all. CHF International, the largest microcredit provider in Iraq, has eschewed the agricultural sector because of low repayment rates. Another national level distortion is the PDS, which provides sustenance to Iraqi families from predominantly imported goods, but which undercuts demand for locally grown crops such as wheat, barley, and maize. Farmers of these products are better off selling their production to government warehouses. Another constraint is the slow pace of land reform. An aspiring Iraqi investor in

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slaughterhouses told PRT officers March 19 that confusion over zoning and the absence of land reform deters Iraqis from pursuing capital improvements to their plots. Finally, unreliable utilities and infrastructure are a detriment to Babil farmers and agribusinesses. The NuNu Dairy in North Babil, for example, told us that largely because of inadequate electricity supplies, it is operating at 25 percent of its capacity, compared to 90 percent in 2003.

THE DATING GAME

19. (SBU) The case of the al-Furat Date Company illustrates the negative effects on private investors of Iraqi government price supports. Yasin Kadhum Alabid, manager/owner of Al-Furat Date Processing Company, told the PRT in March that the GOI's October 2008 decision to buy raw dates at a fixed price to use in the monthly PDS ration had raised the price of raw dates 30-90 percent, depending on the quality. These government purchases reduced date supply, driving up the price and driving Alabid out

of incipient export markets in the Gulf. He hypothesized that the government's intervention had also impacted the supply of dates, as producers were now substituting production of the high-quality dates al-Furat processes for low-quality dates purchased in bulk by the government. According to Alabid, Al-Furat started operations three years ago with USD 2.5 million in start-up costs; he said that the company has not made significant profits and that if business did not improve soon, the plant must close. Although Alabid reached out to European and U.S. buyers, he said he cannot compete with cheaper Saudi and Tunisian dates at the current high price of Iraqi raw dates, which he blames on the GOI. Alabid said that if the GOI does not stop purchasing dates at fixed prices, then the only way the business will survive is if the GOI starts buying his processed dates.

IF YOU BUILD IT, (HOPE) THEY WILL COME

¶10. The jury remains out on the extent to which big ticket construction projects have supported Babil's agricultural output. Some \$3.2 million of CERP funds and full-time coalition staffing have gone into the Central Euphrates Market, but since the market is not yet online it remains to be seen whether it will supplant the ad hoc but relatively well functioning markets in Hillah that currently serve to effectively supply Babil consumers with an abundance and variety of reasonably priced, mostly imported goods. Because the government purchases almost all the province's agricultural output, it will be hard for the market to serve as a trading depot for locally produced goods, despite assurances from local shaykhs that the new market will do so. The project's organizers hope the market will repeat the success of the Karbala vegetable market, where demand for products is so strong that vendors tell us they must pay USD 100,000 annually to lease a stall. In another example, the state-owned Hillah Cold Storage Project, which is currently being refurbished, is primarily used to store PDS rice rations, although the Ministry of Trade's representative for the province told us the GOI's intent is to eventually lease parts of it to private sector suppliers.

TEACH A MAN TO FISH...

¶11. A February USAID report on Iraq's overall agriculture prospects identified vegetables and meat/fish production as the two areas of Iraqi agriculture that have managed to remain free of government intervention and therefore offer the greatest hope for sustainability. Locally produced meat in Babil Province, however, remains almost three times as expensive as imported red meats. This may reflect Iraqi preference for fresh meat over frozen imports, or stem from government restrictions on growing

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alfalfa and other crops that could be used in feedlots. Fish production, on the other hand, is thriving in the province. The Central Euphrates Fish Farm (CEFF), a private sector enterprise with start-up support from USAID, has provided six million high quality fingerlings to 472 small farmers in south/central Iraq. Khudair Abbas al-Emara, the farm's owner and general manager, told PRT officers March 31 that the farm produced 1,200 tons of fish per year, accounting for about 8 percent of Iraq's fish production. Demand greatly outstripped supply, he estimated, because of Iraqis' preference for live fish. Although al-Emara said his business was profitable and had remained relatively unencumbered by government interference, he suffered indirectly

from the Trade Ministry's agriculture pricing policies. Barley accounts for about 20 percent of al-Furat's fishfeed formula, but the Ministry of Trade had set the price of barley paid to Babil farmers at the artificially high price of 700,000 Iraqi Dinars/ton. Imported barley was available in limited quantities for 500,000 ID/ton, but the government controlled the amount of imports to discourage traders from arbitrage (selling imported barley back to the government as if it had been locally grown). Therefore CEFF buys the remainder of its barley at relatively high prices, around 550-600,000 ID/ton, from local farmers who are unwilling to wait the several months it takes the government to make payments. Fortunately for CEFF, much of the composition of its fish feed consists of inputs not grown in Iraq at all, including soybeans and concentrated proteins, which it is able to import without difficulty.

PRT LOOKS TO ESTABLISH SUSTAINABLE AG COMMITTEE

12. (SBU) Looking beyond the legacies of brick and mortar projects and indefinite price supports, Babil PRT helped establish a public-private Provincial Agricultural Advisory Committee (PACC) with the goal of increasing Babil's agricultural competitiveness and productivity. The members include Provincial Council Agricultural Committee members, the Agriculture Director Ahmed, and prominent private-sector business figures in the local agricultural community. With the help of the PRT, the PACC has used a "value chain analysis" to identify elements of the agricultural supply chain that add value to multiple types of agricultural output. The determination of shared "nodes" provides a template for applying resources to those areas of the Babil supply chain most likely to have the broadest impact. In addition to targeting areas with the largest bang-for-the-buck, the identification of "nodes" that impact multiple value chains establishes shared equities among otherwise disparate producers. The key value chains reviewed by the PACC were fish, livestock, poultry, feed grains, forage crops, vegetables, dates, bees. These reviews determined the key shared nodes as: access to capital; training; inputs (fertilizer, seeds, plants, feed mills); soil analysis; processing and delivery (slaughterhouses, harvesting equipment, cold storage); infrastructure (water pumps, transportation); utilities (electricity, water); and marketing. The identification of key "nodes" has been a useful tool in focusing the energies of the nascent PACC. Babil PRT has taught this methodology to other PRTs and it has become a FRAGO (military command directive) for all south/central Iraq.

WAY FORWARD

13. (SBU) Prospects for private-sector led agricultural development in Babil Province amid the influx of imported goods and PDS rations will be dim as long as the Ministry of Agriculture continues to focus its energies on subsidizing inputs, micromanaging production, and buying up output. Director of Agriculture Ahmed, to his credit, seems to recognize the deleterious impact of Baghdad's policies on the province's production but is hard-pressed to do anything about them. Future support, in forms such as expanded extension services or other technical assistance, to such relatively distortion-free areas of production as vegetables and fish production is likely to have a greater impact at lower cost than massive buy-back schemes or big ticket brick and mortar projects. The PACC offers hope as a forum to troubleshoot provincial problems and

to transparently prioritize local agriculture projects. The PACC can also work to establish a consensus on problems outside the scope of local actors, such as zoning and access to credit, and work together to raise the Babil agricultural community's concerns to policymakers at the national level. Without addressing some of these national structural constraints, the best efforts of local institutions to band together to improve the province's long-term agricultural prospects may be in vain.
HILLAS